



# Charities SORP 2026:

Practical Updates in Action



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## Agenda for today

- Overview of the key SORP changes and actions to take in 2026 to prepare
- Signposting to ICAEW resources in the Charity Community free SORP hub
- Focus on income recognition and examples
- Focus on leases and examples
- Transition to the standard
- Practical next steps and resources
- Time for questions

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# Overview of the key SORP changes

and actions to take in 2026 to prepare

# How to prepare for SORP 2026

1

Identify the tier for your charity

2

Consider new requirements for trustees' annual report

3

Decide if natural or activity basis for SoFA (if tier 1)

4

Review changes from FRS102 for income and leases

5

Determine if statement of cashflows required

6

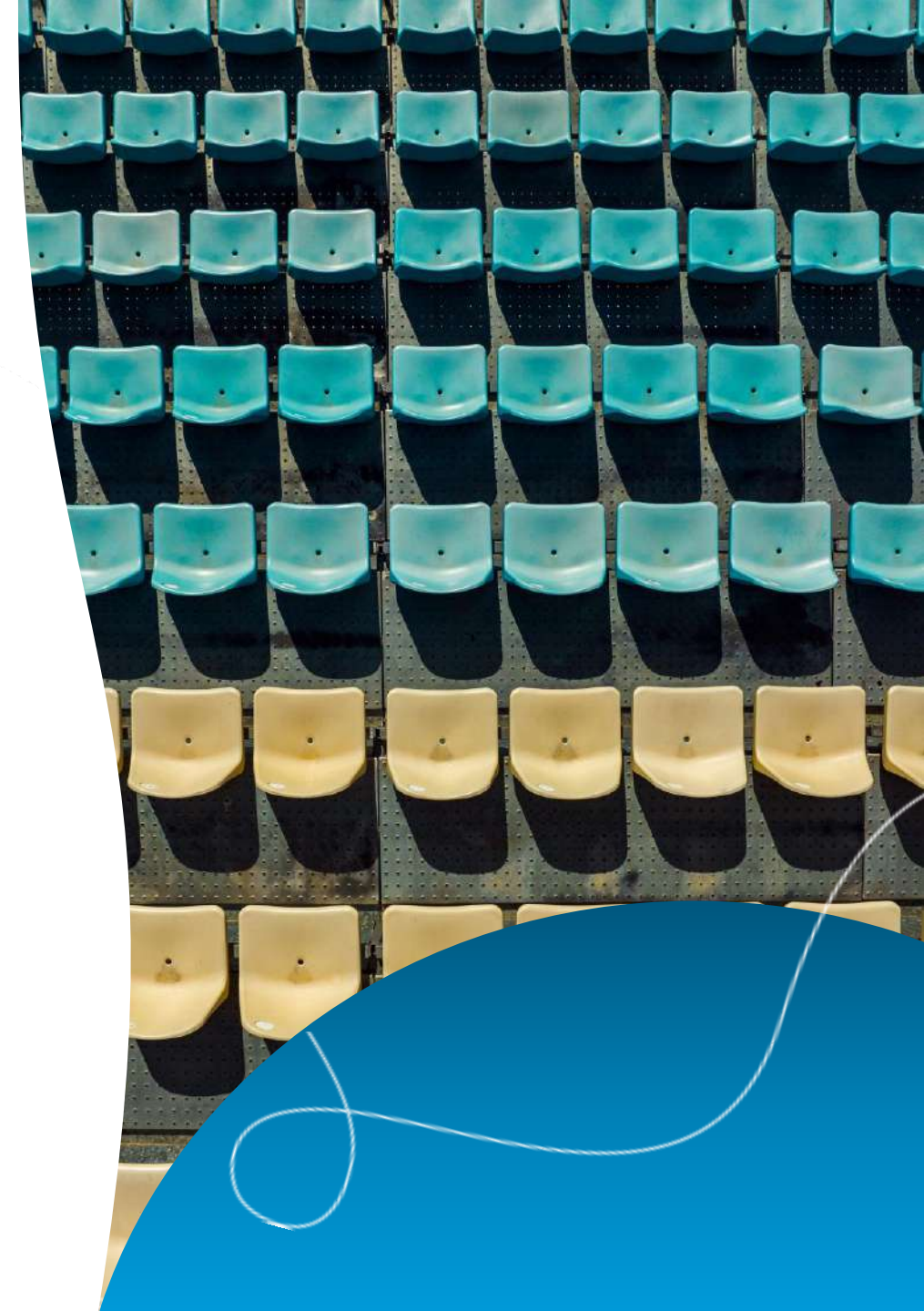
Consider the transition and take advice

# Identify your tier

- Tier 1 up to £500k income
  - Tier 2 from £500k to £15m income
  - Tier 3 the very largest charities (>£15m)
- 
- Thresholds do not align with audit thresholds
  - Each section sets out requirements for each tier



**SORP hub:** Webinar for Tier 1 charities -  
*Small charities: preparing for change*  
Recorded on 1 October 2025





## New requirements for TAR

- New prompt questions
- More on contribution of volunteers
- More on reserves
- Summary of plans for the future for all tiers
- Legacy income explanation for tiers 2 & 3
- Sustainability (ESG) required for tier 3



**SORP hub: Webinar**

*Trustees' annual report*

Recorded on 4 November 2025



**SORP hub: Webinar**

*Charity reserves: from basics to best practice*

Recorded on 23 April 2025

# SoFA – Natural or Activity basis?

## Natural classification

- Available to Tier 1 only
- Optional alternative to activity-based reporting
- Present “relevant analysis of components of income/expenses incurred”
  - No need for raising funds and charitable activities
  - No analysis of support and governance costs



# SoFA - natural classification

- Natural classification option for Tier 1
  - Illustrative SOFA (table 3, section 4)

	Unrestricted funds	Restricted income funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
<b>Income and endowments from:</b>					
(e.g.) Donations and legacies					
(e.g.) Charitable activities					
(e.g.) Other trading activities					
(e.g.) Investments					
(e.g.) Other					
<b>Total</b>					
<b>Expenses incurred:</b>					
(e.g.) Salary-related costs					
(e.g.) Premises-related costs					
(e.g.) Grants made					
(e.g.) Interest expense					
(e.g.) Depreciation					
(e.g.) Impairment charges					
(e.g.) Other expenses					
<b>Total</b>					

# SoFA – activity

## basis

- Activity basis option for Tier 1 and required for tiers 2 and 3
  - Illustrative SOFA (table 4, section 4)

	Unrestricted funds	Restricted income funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
<b>Income and endowments from:</b>					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
<b>Total</b>					
<b>Expenses incurred on:</b>					
Raising funds					
Charitable activities					
Other					
<b>Total</b>					

- Identify and allocate support and governance costs
- Charitable activities should link to those described in trustees' annual report – can you report on them?

# Changes to income recognition

- Exchange vs non-exchange transactions
- Income from contracts with customers = income from goods or services supplied under contract with third parties
- Five step revenue recognition model
- We will cover some practical examples today



**SORP hub: Webinar**

*Income recognition: what's changing in the Charities SORP 2026?*

Recorded on 19 June 2025



# Changes to leases

- Understand your lease obligations
- Increased gross assets
  - Could trigger breach of audit threshold
  - Could trigger company size change
- Increased income for social donation lease
- Changes to expenditure
  - Depreciation and finance costs
- Consider banking and loan covenants



**SORP hub: Webinar**

*Lease accounting changes: next steps for charities*

Recorded on 15 May 2025



# Statement of cashflows

## Tier 3 MUST include

- Irrespective of entity size

## Tier 1 & 2

- Optional UNLESS a non-small entity
  - Income threshold not breached if tier 1 or 2
  - Must meet both:
    - Gross assets > £7.5m
    - Employees > 50



# Income recognition



# The basics for all entities

## What is a contract?

- Agreements between two or more parties that create enforceable rights and obligations

## What is a customer?

- Parties that have contracted with an entity to obtain goods or services that are the output of the entity's ordinary activities in exchange for consideration

## Outcome? So how much and when to recognise revenue?

But for charities...





## Exchange transactions

- Income from goods or services supplied under contract with third parties
- The considerations reflects the amount the charity expects to be entitled to
- Specific examples are
  - Contracts and longer-term contracts
  - Membership subscriptions where right to services
  - Royalties / licences
  - Participation fees for fundraising events
  - Corporate sponsorship



## Non-exchange transactions

- Receives value from a donor or grantor, and given freely but without providing equal value in exchange
- May have performance related conditions or other terms limiting recognition
- Specific examples are
  - Donations of money, goods, facilities or services
  - Legacies
  - Grants including government and capital grants
  - Investment income

# Hallmarks of grants and contracts

Contracts	Grants
<ul style="list-style-type: none"><li>○ Must have offer and acceptance</li></ul>	<ul style="list-style-type: none"><li>○ Gift, freely given at the funder's discretion</li></ul>
<ul style="list-style-type: none"><li>○ Must have consideration (unless structured as a deed)</li></ul>	<ul style="list-style-type: none"><li>○ Often to be used for a specific purpose ('restricted')</li></ul>
<ul style="list-style-type: none"><li>○ Subject to contract law</li></ul>	<ul style="list-style-type: none"><li>○ Subject to trust law</li></ul>
<ul style="list-style-type: none"><li>○ Remedy for failure - damages for breach of contract</li></ul>	<ul style="list-style-type: none"><li>○ Remedy for failure - repayment / claw back</li></ul>

# Old SORP

- Entitlement
- Probability
- Measurement

# New SORP

- Criteria depending on:**
- Exchange transaction
  - Non-exchange transaction

# 5 step revenue recognition model

01

- Identify your third party contract

02

- Identify the performance obligations in the contract

03

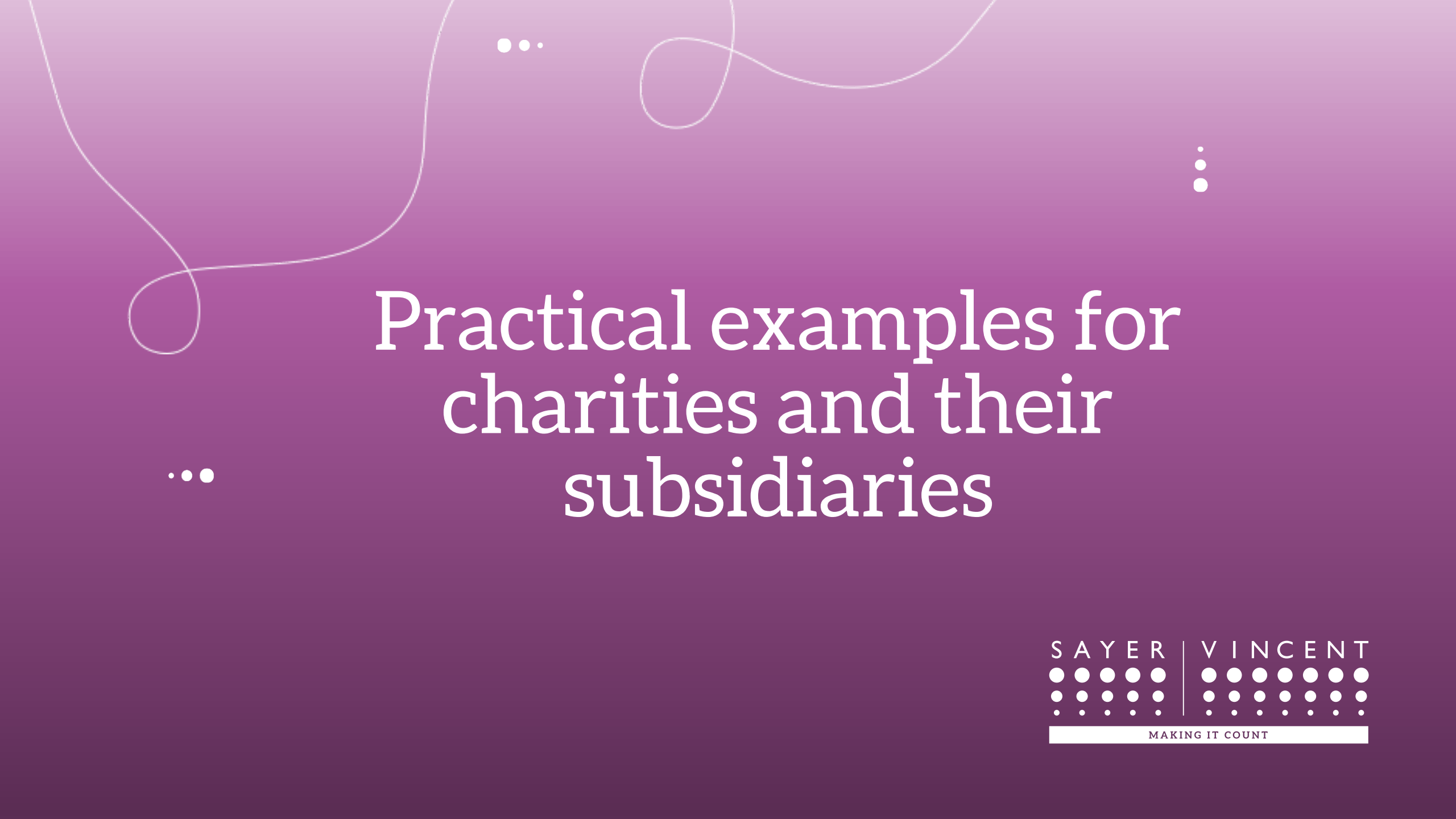
- Determine the transaction price

04

- Allocate the price to the obligations

05

- Recognise revenue when the performance obligations are satisfied



# Practical examples for charities and their subsidiaries

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## Exchange and non-exchange element

- Some income transactions may contain both an exchange and a non-exchange element, such as a membership fee.
- An exchange element would be where there is a purchase of a right to services or benefits.
- A non-exchange element would be more in the nature of a donation with no right to any resources of equal exchange (such as a member newsletter).
- Need to consider the substance of the transaction.

**(Membership income - SORP 5.55 – 5.56)**



## Example: membership fees

- Annual membership fee includes access to a historic building and grounds for the period of one year
- This part is an exchange transaction with the member (a right to services)
- Using the 5 step revenue model, you will need to consider how any performance obligations are satisfied – so how might the benefits be drawn down
- If open benefit, cannot know how many times the member will visit or when (consider T&Cs)
- Therefore, select an appropriate method to recognise income (straight line basis over 12 months)

## Distinct goods or services

- The third party can benefit from the good or service either on its own or together with other resources that are readily available.
- The entity's promise to transfer the good or service is separate from the other promises in the contract.

## Example: training & examinations

	2026 £	2027 £	2028 £
Training materials	£500		
Module 1	£2,500		
Module 2		£2,500	
Module 3			£2,500
Total cost per individual course attendee	£3,000	£2,500	£2,500

- Total contract price is £8,000
- Price has been broken down and allocated to individual performance obligations
- Course materials recognised immediately when provided
- Individual completes the course over a 3-year period – revenue for modules and assessments recognised when completed

## Non-refundable upfront fees

- The contractual arrangement includes a non-refundable fee at the inception of the contract.
- The entity carries out administrative set up processes, but no good or service transfers to the third party.
- The upfront fee is an advance payment for future goods or services.
- Recognise revenue when service provided, not when the fee is paid.



## Example: leisure centre joining fee

	2026 £	2027 £	Total £
Joining fee	£150	£150	£300
Annual membership	£375	£375	£750
<b>Total cost of membership</b>	<b>£525</b>	<b>£525</b>	<b>£1,050</b>

- Joining fee is £300, membership is £750 for the year
- Contractual period for membership is over 12 months
- No requirement to renew at the end of that period
- Joining fee does not transfer a good or service to the customer
- Service therefore provided over 12 months, 6 months in each financial year
- Spread the total contract price including the non-refundable upfront fee over the full period

## Principal vs agent

- Under the old rules, considered whether 'Exposed to risks and rewards'.
- Under the new rules, the principal 'Controls the specified goods and services'.
- Evaluate indicators of control.
- Evaluate indicators of what makes an entity a principal.



## Example: contract for care services

- A charity sub-contracts the delivery of care services to another non-related but appropriately registered charity working in the same sub-sector.
- The entity awarded the contract controls the specified service, establishes the price with the local authority and has overall responsibility for fulfilling the promise within the contract.
- The entity awarded the contract is therefore the principal and must recognise the revenue as the gross amount of consideration receivable under the contract.

# Variable consideration

- Recognise at the amount expected to be collected – two possible methods:
  - Expected value – probability weighted – appropriate when large number of contracts with similar characteristics
  - Most likely amount – most likely in a range of possible outcomes – eg, receive bonus or not
- Apply one method throughout contract
- Include on the basis ‘highly probable’
- Reassess end of each reporting period



## Example: payment by results

- A charity is commissioned to help unemployed people with a disability to get back into the workplace
- 95% of the contract value is based on the delivery of the agreed outcomes – number of people supported to return to work
- An additional 5% of the revenue is payable when it has been confirmed that the individual remains in post for a minimum of 9 months.
- The estimate of how highly probable the additional 5% of the revenue is will be based on:
  - Known fact if more than 9 months has elapsed since employment commenced
  - An estimate based on track record (if available) or an appropriate level of judgement applied



## Example: royalties

- Specific requirements relating to royalties (sales or usage based) – recognise at later of:
  - When subsequent sale or usage takes place
  - The performance obligation to which the royalty has been allocated has been satisfied

**(Royalties - SORP 5.57 – 5.60)**

# Bundling or de-bundling of services

- Goods or services might be highly interdependent or interrelated – so they are affected by other goods and services in the contract.
- The promise in the contract therefore cannot be satisfied by transferring each of the goods or services independently.



## Example: sponsorship and events

A charity enters into a fixed fee contract with a sponsor in return for:

- A promotional video covering their activities
- An invitation to charity events and other partner dinners
- Placing their sponsor logo at the relevant events and dinners
- Giving the sponsor access to present at the events

The events are not yet specified any may vary annually.

With the exception of the video, the individual performance obligations are interrelated – therefore recognise the revenue by bundling the services together (so event, sponsorship and speaking as one).

# Recognise over time or at a point in time

- Over time – if meet one out of three prescribed conditions
  - The customer simultaneously receives and consumes the benefits – routine and recurring services
  - The performance creates or enhances an asset that the customer then controls
  - The performance does not create an asset with alternative use there is a right to be compensated for work carried out.
- Otherwise, recognise at a point in time.



## Example: tree planting & management

	2026 £	2027 £	2028 £
Initial tree planting	£50,000		
Forest management	£10,000	£12,000	£14,000
Total contractual sum	£60,000	£12,000	£14,000

- Total contract price is £86,000
- Initial tree planting recognised at a point in time when planting complete and third party has physical possession of the asset
- Subsequent management fee recognised over a period in time during which the management service is delivered

## Deferred consideration

- Need to reflect the time value of money – no significant change here for consideration due after 12 months.
- Also relevant when:
  - Payment is deferred beyond normal terms
  - The arrangement is financed not a market rate.
- Becomes a financing transaction.
- Interest revenue should be recognised separately.



## Example: land and property sale

- Total contract price is £2,000,000
- Initial proceeds of £1,500,000 recognised at point of sale of the asset
- £500,000 is deferred consideration when planning permission on the site obtained by the purchaser – recognised as deferred consideration only and discounted back to net present value

## Contract modifications

- Change adds a good or service, or changes the contract price – account for as a separate contract.
- If remaining goods and services distinct – terminate existing contract, create a new one.
- If remaining goods and services not distinct – account for as if always part of existing contract.



# Legacies

**Some content moved to Section 13 Events after the end of the reporting period**

13.9. Examples of events occurring after the end of the reporting period that require adjustment include, but are not limited to:

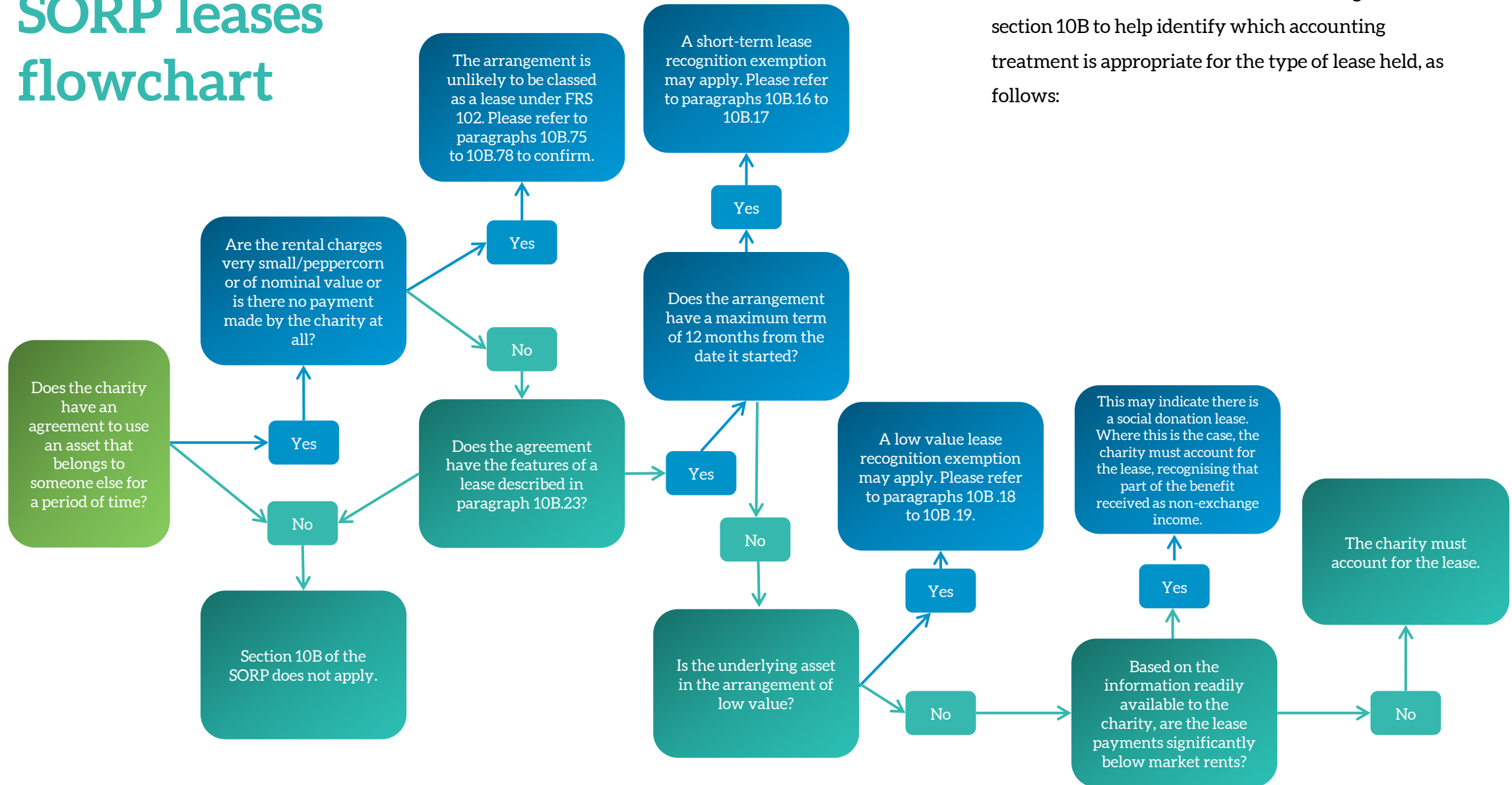
- Notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested
- Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment had been agreed by the executors prior to the end of the reporting period

# Leases



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# SORP leases flowchart



The SORP also includes a flowchart as Diagram 1 in section 10B to help identify which accounting treatment is appropriate for the type of lease held, as follows:

## Non-exchange component lease (SORP example 1, Table 9A)

Charity enters into agreement to use office for three years	
Market rent	£120,000 pa
Lessor offers 50% discount as part of its corporate social responsibility	£60,000 pa
What the charity would have paid for equivalent space	£72,000 pa
Non-exchange component	£12,000 pa

- Payments of £60,000 pa meet the definition of a lease
- Recognise non-exchange component of £12,000 pa as income when received or receivable (dependent on the terms of the arrangement)
  - Either at commencement of the lease
  - Or over the lease term

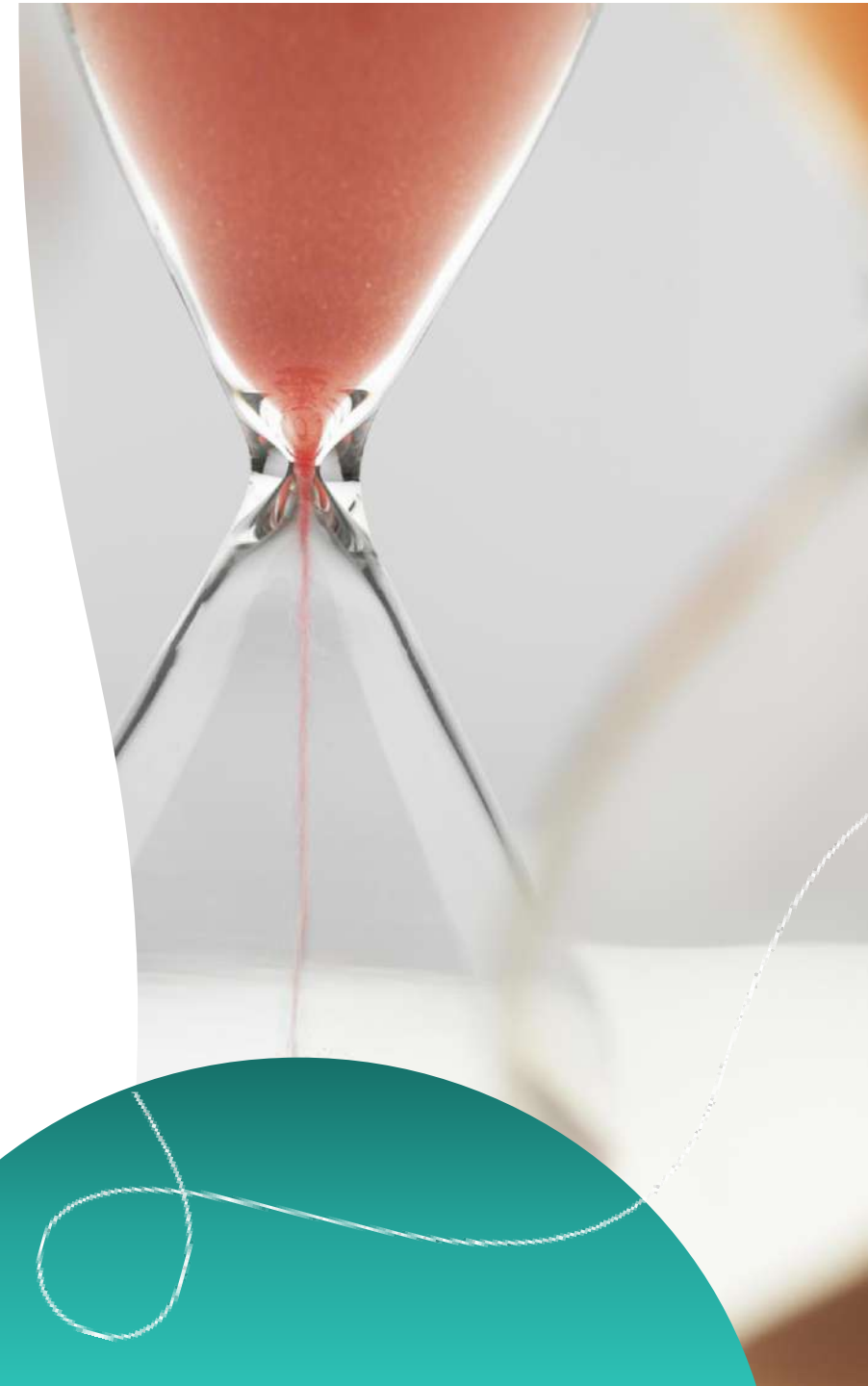
## Nominal consideration lease (SORP example 2, Table 9A)

Charity enters into agreement to use office for three years	
Market rent	£120,000 pa
Lessor offers nominal consideration for use of the office	£10 pa
What the charity would have paid for equivalent space	£72,000 pa
Non-exchange component	£71,990 pa
<ul style="list-style-type: none"><li>○ Payments are very small so arrangement does not meet the definition of a lease</li><li>○ Recognise non-exchange component as donation of £71,990 pa</li></ul>	

# Identifying the lease term

5 factors to consider to assess if an option in a lease is reasonably certain to be exercised:

- Are the contractual terms and conditions comparable with market rents?
- Have significant leasehold improvements increased the economic benefit of the asset?
- Are there costs to terminate the lease?
- Is the underlying asset important to the lessee's operations?
- Are there conditions associated with exercising the option?



# Example in SORP (10B.39)

Length of lease agreement	25 years
Key elements:	
○ First break clause	10 years
○ Second break clause	20 years
○ End of original lease	25 years
○ Option to extend up to	30 years
Non-cancellable period	10 years
Reasonably certain <b>will not</b> exercise first break clause – term is	20 years
Reasonably certain will exercise option to extend – term is	30 years



...

# Transition to the new standard and practical next steps



## Transition to the new standard

- Periods commencing on or after 1 January 2026
- 'Date of initial application' – beginning of the reporting period when you first apply the amendments
- So for 31 March 2027 year ends this would be 1 April 2026

# Transitional provisions for leases

Apply  
retro-  
spectively:

## Opening reserves

- Apply cumulative effect of applying amendments to opening reserves

## Comparative information not restated

- Comparative information remains as previously presented, with operating leases off-balance sheet



# Transitional provisions for revenue

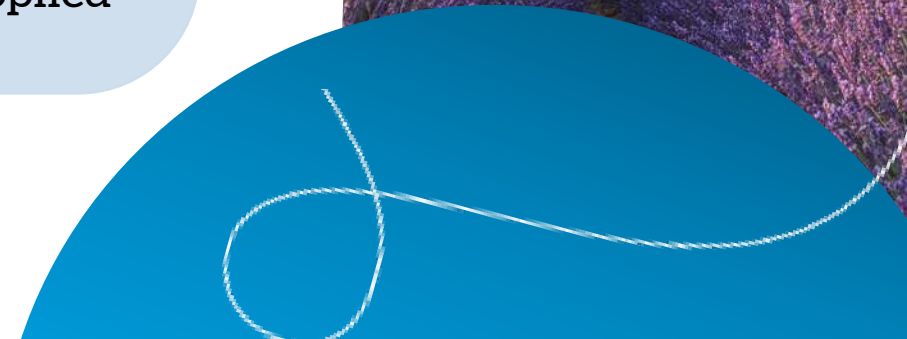
Permits  
either:

## **Modified approach**

- Apply cumulative effect of applying amendments to opening reserves
- Comparative figures are not restated
- Relevant only to contracts not complete at date of implementation

## **Full retrospective approach**

- Comparative information is recalculated on the basis that policy had always been applied



# Transition – Notes

## Effect of transition to SORP 2026

The charity first applied Charities SORP 2026 with effect from 1 April 2026.

Upon transition, adjustments were required to the opening reserves at this date to account for the implementation of changes to accounting for operating leases and income recognition from exchange transactions. Details of these and the impact is detailed below.

	Unrestricted	Restricted	Total Funds
Reserves position	At 1 April 2026		
	£	£	£
Funds previously reported	4,547,500	218,000	4,765,500
<b>Adjustments on transition to SORP 2026</b>			
Recognition of right of use asset	100,000	-	100,000
Recognition of lease liability	(100,000)	-	(100,000)
Changes to income recognition for exchange transactions	25,000	-	25,000
<b>Funds restated</b>	<b>4,572,500</b>	<b>218,000</b>	<b>4,790,500</b>

# Transition - SOFA

	Unrestricted £	Restricted £	2027 Total £	Unrestricted £	Restricted £	2026 Total £
Net movement in funds	386,300	(120,000)	<b>266,300</b>	(255,000)	178,000	(77,000)
<b>Reconciliation of funds</b>						
Funds brought forward	4,547,500	218,000	<b>4,765,500</b>	4,802,500	40,000	4,842,500
Effect of transition to SORP 2026	25,000	-	<b>25,000</b>	-	-	-
Funds brought forward as restated	4,572,500	218,000	<b>4,790,500</b>	4,802,500	40,000	4,842,500
<b>Funds carried forward</b>	<b>4,958,800</b>	<b>98,000</b>	<b>5,056,800</b>	4,547,500	218,000	4,765,500





# Prepare now and seek advice

Signposting to sources of advice and information



# Practical actions to take

- Evaluate what you currently have – different types of contracts, grants and leases - what are the terms and conditions?
- Set up a database to record all of the information in one place.
- Do you have all of the documentation you need to carry out the assessments? Or make sure you request / obtain this, or clearly record any significant gaps with your understanding of the T&Cs and the evidence for this.
- For exchange transactions, work through the 5 step model and document your assessment.
- Compare to current accounting treatment – any significant differences?
- Can you amend any terms and conditions if position is unclear?
- Discuss with independent examiner or auditor
- Discuss with trustees and management
- Agree what the key charitable activities should be for reporting in TAR and SOFA



## Further resources

- **SORP microsite:** <https://www.charitysorps.org/>
- **FRC Factsheets:**
  - 9 - [Initial application](#)
  - 10 - [Revenue from contracts with customers](#)
  - 11 - [Lease accounting for lessees](#)
- **ICAEW SORP hub** (for signposted webinars, guidance and new webinars in 2026): <https://www.icaew.com/technical/charity-community/resources/accounting-and-reporting/charities-sorp-2026>
- **Sayer Vincent resources:**
  - 'SORP 2026' Made Simple guide: [SORP 2026 made simple - Sayer Vincent](#)
  - Webinars: [Events - Sayer Vincent](#)
  - Newsletter: [Newsletter - Sayer Vincent](#)



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